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C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 000702

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NEA/ELA; NSC FOR MARCHESE; PRM FOR JAY ZIMMERMAN; OBO FOR  
RUBEN ALCANTARA

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [SY](#)

SUBJECT: HIGH PRICE OF REAL ESTATE BURDEN FOR SYRIANS

REF: A. 06 DAMASCUS 2439

[1](#)B. DAMASCUS 0540

Classified By: Charge d'Affaires Michael Corbin, reasons 1.4 b/d

[1](#)1. (C) SUMMARY: Real estate prices throughout Syria have risen rapidly over the past three years due to high demand and a limited property supply exacerbated by market inefficiencies. Most Syrian businessmen and economists agree that the rapid price increase is creating a real estate bubble that will likely undergo a future market correction - but most downplay significant negative consequences of such a correction for the Syrian economy. In the meantime, however, the increasing price of real estate is exacerbating the high rate of inflation in Syria, stifling private sector development and burdening average Syrians by limiting their access to accessible quality housing. END SUMMARY.

[1](#)2. (C) REAL ESTATE PRICES CONTINUE TO RISE: Real estate prices - including for housing, commercial properties, and land in Damascus and throughout Syria - have continued to rise over the past three years (ref A). Independent sources estimate that housing and commercial properties have increased in some areas anywhere between 100 and 300 percent and land by as much as 500 percent in high demand areas. In the premier residential areas of Damascus - Malki and Mezzeh - a luxury apartment costs upwards of USD 2 million - a 100 percent increase in the past three years. An average apartment in the same area now rents for USD 35,000, up from USD 25,000 three years ago. Syrian real estate agents assert that even in lower cost areas prices and rental rates have increased by approximately 100 percent over the past three years.

[1](#)3. (C) DEMAND EXACERBATED BY MARKET INEFFICIENCIES: Contacts blame high demand and a limited property supply exacerbated by market inefficiencies for the rapidly increasing prices. The common perception among average Syrians is that Iraqi refugees are to blame for the significant price increases. The influx of an estimated 1.4 million Iraqi refugees over more than three years has increased demand, especially in the poorer Damascus suburbs of Jeremana and Sayeda Zeinab where many Iraqi refugees have taken residence and rental prices have tripled (ref B). Real estate prices at the high end have also experienced some upward pressure due to the influx of a subset of Iraqis with significant wealth. Wealthy Iraqis are also using their funds to renovate properties, however, providing one of the few positive effects - from purchase of construction materials and short-term employment for Syrians - of the refugee influx. Nevertheless, Syrian economists and businessmen assert that refugees are not the only reason for price increases. Instead, contacts point to

population growth (estimated at 2.54 percent), the growing property demands of the nascent Syrian financial sector, and interest from Gulf investors - who seek to invest surplus capital from high oil prices. Contacts note, however, that many announced Gulf investments - beyond land purchases - continue to exist only on paper, and it is has been the SARG hype of these developments that has enabled speculators to inflate prices.

14. (C) In addition, contacts argue that the ongoing structural deficiencies of the Syrian real estate and financial sectors exacerbate the problem of demand. They note that a continued lack of financial instruments - such as the long-promised stock market and treasury bonds - means individuals and businesses have no choice but to invest excess capital in the real estate market - further spurring price increases. They also assert that arcane SARG rules and corruption distort and limit the supply of both housing and commercial properties. Riad Obegi, Chairman of Banque Bemo Saudi Fransi, argues, for example, that the nontransparent nature of Syrian finances makes it easy for property owners to draw out price negotiations and ultimately overprice commercial properties. Contacts further argue that Syrian owners - who do not want to hassle with burdensome real estate regulations or who can't access renovation funds - choose to keep some of their properties vacant and in disrepair for long periods of time. Contacts also state that corruption in state-run enterprises is inflating the price of basic construction materials - such as cement - further aggravating the problem by stifling construction.

15. (C) WILL THE BUBBLE BURST?: Most Syrian businessmen and economists agree that the pace of real estate price increases cannot continue indefinitely, and that Syria will face a

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market correction at some point in the future. They disagree, however, over the extent of the correction and when it might happen, pointing to variable factors such as the continuation of the oil boom in the Gulf and the future development of capital instruments in Syria that would take some of the liquidity out of the market. Some contacts, including Nabil Sukkar, one of Syria's best economists, predict that the real estate market will stabilize over time, but others, including fellow Syrian economist Samir Seifan assert that there will be a correction of approximately 35 percent - although he like others believes this could be years in the future. Regardless of whether there is a market correction, however, most contacts generally downplay significant negative economic effects. Bassil Hamwi, General Manager of the private Audi Bank, echoed others when he said that as an estimated 95 percent of properties are currently unleveraged and because Syrians view property as a long-term investment, price drops would not ignite a selling frenzy. Contacts do caution, however, that as more foreign companies and banks invest in the Syrian real estate market - as they have started to over the last few years - the risk of the real estate bubble increases. They believe that many of these new actors, who have readily speculated in the real estate market, would try to get out if prices suddenly dropped - which would have a negative ripple effect on the rest of the Syrian economy.

16. (C) BURDEN OF HIGH PRICES ON SYRIAN SOCIETY: Regardless of the future risks associated with a market correction, the increasing price of real estate is already exacerbating the high rate of inflation in Syria (estimated at over 20 percent when factoring in real estate), burdening average Syrians and stifling private sector development. Due to a SARG law change in 2001 that allows landlords to increase rental rates without restrictions, there are numerous accounts of Syrian families being forced to move as their rental rate suddenly doubled or tripled. Generally speaking, the high housing costs are more than the average Syrian can afford. The burden of high prices is also being felt in the private sector, with businessmen asserting that instead of putting

excess profits into expanding and growing their businesses, they are forced to use these funds to pay for increasing commercial real estate prices. Of course some of these negative effects are balanced in part by the employment opportunities that result from wealthy Iraqis renovating properties in high-end areas, as mentioned above.

17. (C) The negative effect of high real estate prices is amplified in Syria by the near non-existence of housing loans. In mid-2007, Byblos Bank became the first private bank to offer a specific housing loan product, but the bank's general manager, Walid Abdel Nour, says that most who apply do not qualify - their salaries are too low (Note: IMF estimates Syria's GDP per capita at only USD 1645). Moreover, the interest rates on housing and personal loans in Syria are exorbitant. Syrian economists also argue that average Syrians cannot turn to subsidized public sector housing because it only accounts for 10 percent of the market and is distributed in a corrupt fashion. As a result, informal housing in Syria is rampant. Contacts estimate that roughly 35 percent of the population in Damascus and more than 40 percent of the population in Homs live in informal housing - forcing many to live without adequate access to clean water, electricity, and other public services. The SARG announced in February that it would ratify a new real estate and mortgage law to address some of these structural issues and attract real investment - increasing supply and bringing down prices - but this law continues to languish in the Syrian bureaucracy.

18. (C) COMMENT: The high price of real estate is a topic of common complaint among Syrians, amidst greater concerns about the increasing rate of inflation. Although the high prices are not solely attributable to the Iraqi refugees in Syria, the SARG has not done anything to minimize this perception as it deflects popular outcry over the high prices and its inaction on economic reform that would benefit all Syrians.  
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